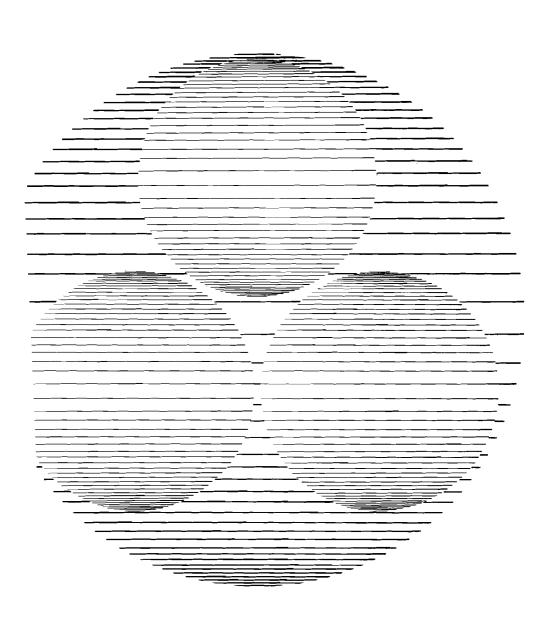
# The United States and the PN-ABT-556 Third World

A Discussion Paper

Department of State



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This paper is not a statement of policy. It is an attempt to bring together, for convenient reference, some essential facts and alternative views on major foreign policy questions.

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## **Contents**

THE THIRD WORLD AND ITS GRIEVANCES	1
DEVELOPMENT	9
POPULATION	15
ENVIRONMENT	21
THE U.S. AID PROGRAM	27
AGRICULTURAL DEVELOPMENT/FOOD AID	33
TRADE	37
COMMODITIES (Raw Materials)	43
ENERGY	49
OPEC INVESTMENTS IN THE U.S	53
MULTI-NATIONAL CORPORATIONS AND	
THE THIRD WORLD	55
THIRD WORLD DEBTS	59
CONCLUSION	63



## The Third World and Its Grievances

First World: the advanced industrial countries

Second World: the Communist countries Third World: the less-developed countries

To promote their own development, members of the "Third World"—the less-developed countries of Asia, Africa, and Latin America—have been calling for a "New International Economic Order," involving a massive redistribution of global wealth and power. They claim that the world's economic institutions have been "stacked" against them.

In spite of strongly divergent interests—especially with respect to the high price of oil, which has enriched some of them and nearly ruined others—they have shown a considerable degree of cohesion. Their common bond is a sense of grievance—a feeling that they are underdogs in a world controlled by others.

In their common rhetoric, such terms as "colonialism" and "neo-colonialism" have a unifying effect. It may seem surprising that this should be so—especially in the case of Latin American countries, most of which have been independent for a very long time. But then, there is a school of thought in Latin America which holds that the United States has in effect replaced Spain as a colonial exploitive power, with the willing connivance of the Latin American industrial class. Indeed, the theme of "exploitation" is a recurrent one in Third World pronouncements, and sometimes the idea of redistributing global wealth is equated with reparations for past injustices.

But there are more moderate voices also. One noted Third World economist has said that what its members are really seeking is "greater equality of opportunity in the future, which is impossible to achieve within the present economic imbalances and the existing world structures which favor the rich nations." He cites the international credit system as an example: "Poor nations, with 70% of the world population, received less than 4 percent of the international credit of \$126 billion in the last two decades." 1

Whatever their individual attitudes may be, members of the Third World have turned collectively, for cooperation and help, not to the Communist powers—from which most seem to expect little more than rhetorical support—but mainly to the advanced industrial powers, and foremost to the United States.

How should the United States react?

Americans, like a number of other people, feel an automatic sympathy for the underdog; and indeed the United States has taken many measures, over a long period of time, in support of Third World aspirations. But as the United States is called upon to do more, especially when it has its own economic problems, might not Americans feel that they too are entitled to a feeling of grievance—especially toward the oil-producing members of the Third World?

Nor is this the only consideration which seems to argue for a cautious approach to Third World problems. There is abundant evidence that past development assistance programs did not have the dramatic effects often expected of them; moreover, countries of the Third World have themselves acknowledged, in a common declaration, that if development is indeed to take place, each individual country must assume the primary responsibility for it. In other words, a mere transfer of resources, even if substantial, would not by itself make the difference. Of at least equal importance, many countries of the Third World have not taken adequate steps—as a pre-condition for real development—to reform the use and control of land, to promote investment, to reform their bureaucracies, or to control the ominous growth of their populations. Finally, one hardly needs to be reminded that the performance of many of these countries in terms of the human rights and political

<sup>&</sup>lt;sup>1</sup> Mahbub ul Haq, Christian Science Monitor, Aug. 29, 1975. (The author, a Pakistani national, is director of the World Bank's policy planning department.)

liberties which one takes for granted in the United States has been lamentable.

But if these are some reasons for a cautious approach in efforts to help Third World development, there is also a very different side to the picture. Just as the Third World is heavily dependent on the United States and presumably will be increasingly so—especially for food—the United States has a large and growing interest in cooperative relationships with the Third World. To cite a few of the more evident reasons:

- The United States is now importing over 30% of its oil needs from the Third World; and this import requirement may well go even higher over the next few years (especially as Canada reduces its sale of oil to the U.S.).
- U.S. industry is almost wholly dependent on foreign sources of chromium, cobalt, bauxite, manganese, and tin. Between 40% and 95% of these imported minerals are from the Third World.
- About one-third of American exports already go to the less-developed countries. With further development, these same countries could provide a considerably larger market. Most economists seem to believe that advantages to the global economy from such increased trade would be very substantial.
- The "book value" (original value) of American private direct investments in the Third World is over \$30 billion, and market value is perhaps double that. Earnings from these investments amount to about 5% of total U.S. corporate profits.
- Cooperative relationships with the Third World—as indeed with the First and Second Worlds—seem essential if we are to cope with such global concerns as drugs and disease, law-of-the-sea problems, population and environment (see pp. 15, 21), terrorism, and most important of all, the various possibilities of nuclear diversion or theft.

Nations beset by desperate problems of hunger and poverty will, at the least, tend to play a destabilizing role in world politics, perhaps seeking advantage from Great-Power rivalries or from the use of spoiling tactics in international forums. The adverse effect on world security, if marginal, would be real.

These are matters affecting our own security and well-being. But it is clear that a civilized country must also deal with moral issues. The Third World comprises 70% of the human race, and some of its people are in desperate circumstances.

There are many steps which Third World members can take only by themslves. At the same time, we have learned a good deal about ways in which we can assist—as well as about ways in which we cannot.

It is apparent that our relationship with the Third World has many aspects. And the tactical side of dealing with so many interlocutors also can pose problems—as in the selection of a forum, for example. Clearly, it is not easy to have closely-reasoned discussion in a large public body such as the U.N. General Assembly, where Third World members may be competing with each other in an atmosphere dominated by rhetoric. Private discussions, bilateral or in small groups, are normally far more productive. And yet, there are occasions where broadranging discussion in a major forum is necessary.

If we are to take a closer look at U.S.-Third World relationships, in any case, the United Nations is the logical starting point. For it was there, in 1974 and 1975, that the Third World mounted its current major diplomatic effort, drawing up a series of declarations which set forth its aspirations as well as its grievances.

#### The Great U.N. Confrontation

Economic stagnation, which had already begun to afflict the industrial countries in 1973, became a global recession after the spectacular rise in oil prices at the end of that year. The price of many raw materials later came plunging downward as the recession deepened, thereby drastically reducing the export earnings of less-developed countries. Of all countries, in fact, the non-oil-producing members of the Third World were much the hardest hit by the four-fold price increase—which more than wiped out the total of foreign aid they had been receiving. One might have expected them to turn in anger against the oil-producing countries; but that is not what happened.

In a bold initiative, the oil-producing countries—led by Algeria—asked the non-oil Third World countries to *accept* high oil prices "as the vanguard of a new economic order" which would bring substantial benefits to all members of the Third World.<sup>2</sup>

<sup>&</sup>lt;sup>2</sup> Development Cooperation—1975 Review, Organization for Economic Cooperation and Development (OECD), p. 21.

(According to a Kenyan scholar who followed these events, Ali A. Mazrui, the non-oil countries were in a frame of mind to be persuaded without too much difficulty. The use of oil "as a political weapon" against the industrial countries, he said, had so "fired the imagination" of the Third World that "a developing country poet might have written, as William Wordsworth did of the French Revolution: 'Bliss was it in that dawn to be alive / But to be young was very heaven.'")

#### "Rights" and "Duties"

A major orchestration of Third World positions then took place at the U.N. General Assembly, in 1974 and 1975—still led by Algeria, and to a lesser extent by Mexico.

While the Assembly's decisions are not generally binding, critics said the Third World was trying to use this body to "legislate" a redistribution of the world's wealth. Owing to this and other issues, the atmosphere of confrontation between developed and less-developed became such that some Americans began to question the whole nature and role of the General Assembly. Did this body, by its very existence and make-up, increase the amount of conflict in the world, "drawing uninvolved third parties into the fray and forcing them to take sides"? In any event, Third World leaders succeeded in gaining wide support for several sweeping resolutions, covering virtually all aspects of international economic relationships.

The philosophy of the projected "New International Economic Order" was set forth first in a "Declaration" and then in a "Programme of Action" (both adopted on May 1, 1974). The new order was to "redress existing injustices" and "make it possible to eliminate the widening gap between the developed and the developing countries." These two resolutions were soon followed by a "Charter of Economic Rights and Duties of States."

<sup>&</sup>lt;sup>3</sup> Ali A. Mazrui, "The New Interdependence: From Hierarchy to Symmetry," *Agenda for Action 1975*, Overseas Development Council, Washington, D.C.

<sup>&#</sup>x27;Paul H. Weaver, "Making the U.N. Safe for Democracy," Fortune, Nov. 1975.

(The issues dealt with in these documents are discussed under the various subject headings that follow. It may be useful to note at this point, however, that the United States expressed reservations in particular with respect to the following: (1) expropriation of foreign industrial property without due regard for international law on compensation; (2) the encouragement of "producer associations" (like the oil cartel); and (3) establishing "artificial and fixed price relationships between prices of exports and imports of developing countries" (known as "indexation").<sup>5</sup>

Critics of these resolutions noted sardonically that the Charter seemed to assign "Duties" mainly to the developed countries and "Rights" to the less-developed. They also noted that there was almost no reference to population control or to internal reform. Nor did the Charter, in envisioning expropriation of foreign property without regard for international law, address the likely result: that this would discourage the flow of investment capital, essential for development.

On the other hand, there were aspects of these resolutions which representatives of industrial countries could surely note with approval: (1) The Charter acknowledged that "responsibility for the development of every country rests primarily upon itself . . ." (2) The Declaration acknowledged a "close interdependence between prosperity of the developed and the growth and the development of the developing countries." (3) The Charter called for "higher standards of living for all peoples," not just those of the less-developed countries.

The climax toward which these activities at the United Nations were building was a Special Session of the General Assembly, scheduled for the fall of 1975. As the time approached, with no apparent abatement in the atmosphere of confrontation, there were forewarnings of a stormy session.

However—to the great surprise of many observers—the battle did not take place. Instead, there was a very large measure of accommodation between the two sides. While one may attribute this outcome to various causes, members of the press and foreign delegations at the United Nations attributed it largely to the fact that the United States had made singularly detailed prep-

<sup>&</sup>lt;sup>5</sup> Texts of these Third World resolutions may be found in Department of State Selected Documents No. 1, Aug. 1975.

arations for the Special Session. A statement by the Secretary of State on September 1 put forth the U.S. position on virtually the entire range of issues; and on September 16 the General Assembly unanimously adopted a resolution that incorporated some 28 proposals and policy recommendations from the U.S. statement. The representative of a "medium-sized Asian country" was quoted in the press as saying: "Sentiment among many of my colleagues toward America is becoming more sober, less emotionally hostile . . . That's why the extremists were defeated in our caucuses, and we started talking business with the Americans. The majority in the third-world group didn't want an ideological showdown or political victories, but practical short-term solutions to their real problems."

Of course, many issues remained to be resolved; but as the Special Session ended there seemed to have been a "sea change," as one State Department official remarked, bringing a more propitious atmosphere for subsequent negotiations on these issues.

The following sections will seek to deal briefly with those aspects of U.S.-Third World relationships which are of a continuing nature, primarily economic. They will treat matters of relatively pressing interest for the United States—energy, raw materials, environment . . . but since, for the Third World, the number-one priority for all seasons is "Development," that is perhaps a good place to start.

<sup>&</sup>lt;sup>6</sup> The Secretary's Sept. 1 statement, together with the resolution, will be found in Department of State Selected Documents No. 2, Nov. 1975.

<sup>&</sup>lt;sup>7</sup> Paul Hofmann, The New York Times, Sept. 19, 1975.

## Development

"... that the condition is remediable ..."

In the mid-1940's—before it became current to speak of "developed" and "less-developed" societies—a Chinese scholar, Chiang Monlin, sought to analyze the essential difference between the two; and he concluded that it stemmed from "two fundamentally different ways of knowing nature." The normal tendency of Westerners to think in terms of universal (natural) laws, he believed—as opposed to the traditional Chinese way of observing nature, which he characterized as having been "intuitive" or "naive"—offered the key to technological development; and he saw this way of thinking as the legacy of ancient Greece.<sup>1</sup>

It is true, of course, that European civilization, beginning with the Renaissance and its revival of Greek thought, came to outstrip all others in scientific and technical achievement. There seems no doubt that this culture, with its underpinning of generalized natural laws, "encouraged" technology, whereas some cultures may in a sense be hostile to it (if they have an "unscientific" concept of cause and effect, for example). But one must look for other factors also—if only to explain the unevenness of development in different societies with European connections. Geographic and climatic forces come to mind. But perhaps there was some broader "challenge and response"

<sup>&</sup>lt;sup>1</sup> F.S.C. Northrop, The Taming of the Nations, ch. VII, Macmillan, 1952.

mechanism at work—such as Arnold Toynbee conjectured in explaining the historical rise of some civilizations and the failure of others. Were the natural or human challenges in some areas of the world too great, or too small, thereby producing a weak response—this time in terms of development? (In his celebrated television series, *The Ascent of Man*, Prof. Jacob Bronowski depicted the trial and repression of Galileo as such an excessive human challenge that it drove the locus of scientific thought from Italy to northern Europe, where there was freedom of expression.)

While the causes of *under*-development are thus complex and obscure—by no means as simple as the "exploitation" theme in Third World rhetoric would suggest—people in the Third World seem to have increasing faith that the *condition* is remediable, even as some of their problems become more acute. The advanced industrial powers—with the United States in the vanguard—have acted on the same principle; and the concept of assisting the Third World with its development process has not been seriously challenged. While the various motivations for giving assistance have evolved (see p. 27), the main questions have been: how much, and in what form?

In addition to having supported the goal of independence for many of the developing countries, the United States, by the mid-1960's, had provided immense amounts of public and private capital for their development, and had educated several millions of their people. Moreover, the American role as champion of development assistance seemed to meet with wide approval at home as well as abroad.

The decade of the sixties was one of considerable progress for the less-developed countries (LDC's): with rapidly rising exports, they collectively increased their real national product much faster than the industrial countries had done at a comparable stage in their own history. The term "developing country" was no euphemism. Gradually, however, there came to be some second thoughts about bilateral aid—on both sides. Some of the LDC's complained that it involved too much interference in their economic policy decisions, or that it was politically motivated, or that it was insufficient and too unpredictable (because of the need for annual congressional appropriations) to be of real help for development. A feeling often shared on both sides was that it enriched a few but that not much trickled down to the mass of people.

As seen from the U.S., the program was sometimes vitiated at the other end through mismanagement or corruption—not to mention that it drew forth little appreciation. In time, moreover, the events of Indochina, the recession (beginning in 1973), and the oil crisis were all to have a bearing on American attitudes toward the costs of "foreign involvement," and thus toward aid.

It became increasingly apparent, also, that the Third World really consisted of two very different kinds of countries—especially after the oil-price rise; and the term "Fourth World" came into use, meaning the least fortunate. (By 1974 the relative situation of these non-oil countries had worsened to the point where the U.N. drew up a list of 33 "Most-Seriously-Affected," and by 1975 the number reached 42.)

In view of this increasingly evident dichotomy in the Third World, together with disappointment in earlier results from the U.S. aid program, Congress in 1973 made radical changes in the focus of U.S. aid, placing major emphasis on "the poor majority." Other donor countries began to follow a similar policy, as did the World Bank in its own development assistance programs.

Although there have been increasing aid flows to the poorer LDC's from members of OPEC (the Organization of Petroleum Exporting Countries), by far the largest amounts continue to be provided by the industrial powers, i.e. the OECD countries.<sup>2</sup> The industrial powers have been providing "official development assistance" (as opposed to private capital, which they have furnished in still larger amounts) at the rate of about \$12 billion per year—of which the United States contributes about \$4 billion. Some of this goes through international agencies, which in turn have been making annual commitments of about \$7 billion. The OPEC countries have been committing themselves at an estimated level of around \$5 billion, though actual disbursements appear to have been much lower.<sup>3</sup> OPEC contributions have been sizable in terms of the donors' gross national products, but they have been directed overwhelmingly to other

<sup>&</sup>lt;sup>2</sup> OECD: See footnote, p. 49.

<sup>&</sup>lt;sup>3</sup> These approximate figures are derived from Development Cooperation—1975 Review, OECD, pp. 182, 195; and Agenda for Action 1976, Overseas Development Council, Washington, D.C., p. 216.

Arab or Moslem nations. As noted by some American observers, "... OPEC funds are as yet of marginal assistance to most developing countries, and in many of them do not begin to cover the foreign exchange losses created by the oil-price increases." OECD countries, on the other hand, give aid to over 100 recipients.

For the U.N. Second Development Decade (the 1970's) the industrial countries were called upon to commit 0.7% annually of their gross national product to "official development assistance" for the LDC's; and they have been criticized for attaining, collectively, a level of only about 0.3%. The U.S. contribution is much the largest in absolute terms, though it is only about 0.26% in terms of GNP.<sup>5</sup>

Believing it unlikely—especially under current economic conditions—that there will be any sizable increase in bilateral aid in the near future, the LDC's have looked increasingly for other ways to step up the flow of resources to promote their development. The United States has urged them to look more to private capital markets, and to take steps that encourage foreign investment. The LDC's in turn have been seeking new preferential trade arrangements and special trade advantages for their raw materials or "commodities": critical of high-consumption levels in the advanced countries—especially the United States—they want a higher return on these than market prices have provided. They have also sought ways to increase their acquisition of rights to technology, as well as ways to obtain "new and automatic sources of income," such as from exploitation of the seabed.

There are thus many points of difference between the industrial countries and the Third World, some of whose aspirations

<sup>&</sup>lt;sup>4</sup> "Overview Essay," Agenda for Action 1976, Overseas Development Council, Washington, D.C., p. 26.

<sup>&</sup>lt;sup>5</sup> During the period 1970-74 the aggregate annual growth of the LDC's nevertheless approached the 6% target of the U.N. Second Development Decade. "This progress... was made possible by major increases in their foreign exchange earnings." (Development Cooperation—1975 Review, OECD, p. 10.)

<sup>&</sup>lt;sup>6</sup> Agenda for Action 1976, Overseas Development Council, Washington, D.C., p. 23.

may seem excessive or unrealistic. If reason prevails, however, the climate for addressing these differences should be favorable. In many ways, and as never before, the industrial countries and the less-developed find themselves in a state of mutual dependency: economically, and in terms of dealing with global problems which no group of countries can surmount alone. There are some cases, in fact, where it would seem that both sides must either win or lose together.

## **Population**

"... thereafter it would simply become unbelievable ..."

#### "Their" Problem?

World population now doubles itself in about 30 years' time. (Today it is 4 billion.) The growth is relatively slow in developed countries, but some of the less-developed "make up for this." To take an example, if current fertility rates in Mexico stayed the same for the next 100 years, the population of that country would then be over 2 billion.

U.N. demographers have drawn up a "constant fertility" chart which projects the world population through the year 2000; but that is where the chart stops; thereafter it would simply become unbelievable. As the (American) National Academy of Sciences said already some years ago: "Either the birth rate of the world must come down or the death rate must go up."

The demographers have therefore drawn up what they call a "medium" projection, in an effort to reflect more realistic assumptions. But even with this projection, according to U.S. Department of Agriculture estimates, the less-developed countries would have to import such a staggering amount of food

<sup>&</sup>lt;sup>1</sup> Latin American population pressures are already felt directly in the United States through the presence of an illegal alien population of several millions. (David Fitzhugh, "The Silent Invasion," Foreign Service Journal, Jan. 1976.)

by the year 2000 that even if they could pay for it—and assuming that such quantities of food could be made available to them—there might not be a way to ship it all. To avoid massive starvation in less-developed countries, it seems inescapable that population growth will have to be brought well below the U.N. "medium" projection.

At the present time, less-developed countries are feeling the economic and social impact of population pressures in several ways: In some cases, economies cannot produce additional jobs as fast as population increases; so that even an impressive rate of economic growth may have little or no effect on poverty and rates of unemployment. Subsidies have to be provided for food-growing, and food has to be imported, causing a drain on foreign exchange. There are mounting demands for public services, especially in cities. In some places, population pressures have made harmful agricultural practices a veritable necessity, causing deforestation and erosion of the land.

Over the longer term, these present effects could be compounded by increasing food shortages and internal (and possibly even external) security problems as demands for food, work, and vital public services become more insistent.

(Harvard economist Robert Heilbroner has projected as a possible outcome of continued population growth "the descent of large portions of the under-developed world into a condition of steadily worsening social disorder"; or alternatively, the rise of "'iron' governments." In the latter case, he envisions the possibility of "'wars of redistribution'" and of nuclear blackmail of wealthy countries by "under-developed nations which have 'nothing' to lose.") <sup>2</sup>

**Bucharest.** What are the attitudes of less-developed countries toward the population problem?

When the World Population Conference was held at Bucharest in 1974, it seemed as if a good part of the world was not quite ready to confront this "difficult and delicate subject," as one U.S. official referred to it. The major issue was a draft "World Population Plan of Action," which came under attack by "Algeria, supported by a few African countries; Argentina,

<sup>&</sup>lt;sup>2</sup> Robert L. Heilbroner, An Inquiry into the Human Prospect, W. W. Norton & Co., New York, 1974, pp. 39-44.

supported by three or four Latin American countries; an Eastern European group of eight Socialist countries; the People's Republic of China; and the Holy See." The thrust of the attack was "to assert the importance (or even pre-condition) of social and economic development for the reduction of high fertility, and to reduce the emphasis on population/family planning programs." For many LDC's, according to the U.S. delegation's report, it was the international economic order which lay "at the root of all problems. The problem is not one of population growth but of social and economic justice."

The same group of countries which attacked the conceptual basis of the Plan also opposed the idea of setting any quantitative goals or target dates for the reduction of birth rates or population growth rates. The United States proposed a goal for reaching replacement-level fertility by the year 2000. Under this proposal, world population would reach 5.9 billion by A.D. 2000, 8.2 billion by 2050, and then stabilize at around 8.4 billion toward the end of the 21st century. (This was considerably below the level of the U.N. "medium" projection, which envisions stabilization at 12.3 billion in about the same period of time.) Although a number of Asian countries joined the U.S. in this initiative, the proposal was defeated.

Nevertheless, the "World Population Plan of Action" as finally adopted (by acclamation of the 137 nations participating, with only the Holy See withholding approval) was seen as an important step forward. It "calls upon nations to establish population policies and to recognize the right of every man and woman to plan the size of their families and to have the means

<sup>&</sup>lt;sup>3</sup> Philander P. Claxton, Jr., "The World Population Conference: An Assessment," Department of State Bulletin, Nov. 11, 1974.

Notwithstanding the position taken by China at the conference, available information indicates that that country has carried out a large-scale population control program, with contraception and abortion services widely distributed throughout the country.

<sup>&#</sup>x27;Whether one can deal with population problems more effectively in an indirect way, by promoting development, or directly, through family-planning programs, is a now-familiar question. The U.S. position is that "population programs are only a part of—but an essential part of—economic and social development efforts." (Department of State Bulletin, Mar. 24, 1975, p. 393.)

for doing so. In short, family planning . . . gained worldwide acceptance."  $^{5}$ 

Since Bucharest. In the wake of Bucharest, moreover, some further progress has been made, both at international conferences and in terms of individual countries' program achievements. At a conference in Bangkok in 1975 Asian and Pacific nations "adopted . . . specific national goals and target dates." A meeting of Latin American countries at Mexico City "supported the Plan of Action adopted at Bucharest but emphasized that member nations should study their own population situations." At a similar meeting in Qatar, Near-Eastern countries "agreed to help fund demographic studies of that region and family planning in the more densely populated countries, especially Egypt." <sup>6</sup>

Most countries have now come to recognize population growth as a key variable in development, and more than 45 nations now have family-planning programs. As a result, population growth rates have come down in a number of places; and there have even been some "success cases" where they have come down significantly (examples: Costa Rica, Hong Kong, Jamaica, South Korea, Singapore, and Taiwan). In nearly a dozen other developing countries, national family-planning programs have advanced to the point where U.S. AID officials believe it may be possible to start phasing out American population-related programs in a few years' time.

Experience has shown that a strong and clearly stated government policy is important. But so also is economic development, which can bear on family-planning decisions through such disincentives as the following: a requirement to educate children; a social security system, so that aged couples do not have to depend on children for support; and community development—meaning that others can be called on for services which formerly had to be performed by children within the family.

<sup>&</sup>lt;sup>5</sup> "The World Population Crisis: The American Role," address by Ambassador Marshall Green, Coordinator of Population Affairs, Cleveland, Mar. 30, 1976.

<sup>&</sup>lt;sup>6</sup> The Sixth Annual Report of the Council on Environmental Quality, Dec. 1975, p. 594.

Two international organizations are active in the population field: (1) The U.N. Fund for Population Activities, which relies on voluntary contributions. There are many contributors, though only two of them are Communist countries: Hungary and Yugoslavia. (2) The World Bank (IBRD), which offers loans for building clinics and establishing programs. Over the past decade, however, since the U.S. adopted a policy of assisting population programs, the United States has provided about 60% of available world resources in this field—roughly \$750 million. Some of this has been channeled through the international agencies; there have also been contributions to research in improved means of fertility control, and contributions to equipment and many other aspects of family-planning programs.

Because of the built-in momentum for growth in populations with disproportionately large numbers of children, it takes time for family-planning programs to make a significant impact on growth rates. AID officials thus point out that there are no quick solutions, and that the United States and others must be prepared for a long-term commitment to help reduce excessive population growth.

#### **Environment**

"...a dual approach ..."

Early in 1972 the Club of Rome (a private international group of scholars) published a report called "The Limits to Growth" which set off a wave of controversy. If current global trends in population growth and industrialization continued unchanged, the report indicated, intolerable levels of pollution would be reached and many non-renewable natural resources would be depleted, mostly within 100 years.

A study commissioned by the World Bank disagreed with the report's projections regarding population, resources, and pollution: it seemed to take little account of ocean and seabed resource potentials, and not enough account of pollution controls. But perhaps most of all, the Bank study took issue with the apparent assumption that no process of adjustment would take place. "While the [report] itself contains hardly any mention of corrective mechanisms, in a larger sense its very appearance can be regarded as part of the corrective mechanism which societies devise in response to major problems." A "Second Report to the Club of Rome" (Mankind at the Turning Point), which appeared in 1974, projected a more hopeful outlook. It envisioned a program of coordinated or "organic" growth in various regions of the world, under a global master plan; it nevertheless called for "fertility rate declines to an equilibrium

<sup>&</sup>lt;sup>1</sup> Mahbub ul Haq, "The Limits to Growth—A Critique," Finance & Development, Dec. 1972.

level within a fifty-year period," as well as sizable transfers of resources from developed to under-developed countries.<sup>2</sup>

(Harvard economist Robert Heilbroner has stated a quite different view on resource depletion: "In point of fact, reserves of all known elements exist in 'limitless' quantities as trace elements in granite or sea water, so that, given the appropriate technology and the availability of sufficient energy, no insurmountable barrier to growth need arise from resource exhaustion for millennia to come." But at the same time he points to another seemingly formidable barrier to industrial growth: "It is that all industrial production . . . requires the use of energy, and that all energy, including that generated from natural processes such as wind power or solar radiation, is inextricably involved with the emission of heat." With continued worldwide growth in the use of energy, would this not of itself fulfill the doomsday prophecy by triggering disastrous modifications in world climatic conditions? On the other hand, some technicians point out that under present procedures there is such a vast waste of both energy and heat that the efficient use of them might very well be enough to solve this problem.)

When the first Club of Rome report appeared in 1972, at any rate, it seemed in the minds of many people to place environmental preservation and industrial growth (hence development) squarely in opposition to each other. Among other things, this posed something of a dilemma for Americans and other donors of development assistance: by helping recipient countries to develop, were they in fact compounding an existing problem, thereby bringing even closer a day of reckoning for all?

In the Third World there were strong reservations about such environmental warnings, coming as they did from the already-industrialized "North." What did they portend? Regardless of what the intentions might be, was there not a danger that this school of thought would lead ultimately to perpetuating the gap between developed and developing countries? Would "spaceship

<sup>&</sup>lt;sup>2</sup> For a more recent report on Club of Rome members' views, see *Newsweek*, Apr. 26, 1976, p. 84.

<sup>&</sup>lt;sup>3</sup> Robert L. Heilbroner, An Inquiry into the Human Prospect, W. W. Norton & Co., New York, 1974, pp. 50-53.

earth" then be divided permanently "into two classes of passengers"?4

By the same token, there was little doubt where Third World priorities lay when, later in the same year, a United Nations Conference on the Human Environment—the first of its kind in history-was convened at Stockholm. While the industrial countries sought to mount a generalized attack on global pollution of the atmosphere and the oceans, the less-developed countries made it plain that their priority "environmental" problems were poor housing, illiteracy, and the many other derivatives of poverty, which could only be cured by an intensification of industrialization and development. Developing countries, they said, would be better able to deal with global environmental matters once they had a strong economic base. As the conference report later noted, summarizing various statements: "The priority of developing countries was development." It added: "There was also general agreement that a philosophy of 'no growth' was absolutely unacceptable."5

Some LDC observers later voiced concern when the U.S. AID program, and also the World Bank, adopted the policy of requiring environmental studies before approving development assistance loans. LDC's have also expressed concern at times that tight environmental controls in developed countries might increase the cost of goods they have to import from the latter; and that their exports to the industrial countries could be hampered through the application of strict environmental standards—a new kind of non-tariff barrier. On the other hand, industrial countries have feared that some of their own industries, faced with higher costs because of environmental controls, might move to "pollution havens" in less-developed countries that have less stringent standards. Neither of these possibilities seems to have materialized in significant degree, at least up to this time.

At the Stockholm conference a compromise was nevertheless worked out, embodying a dual approach: (1) It was agreed that

<sup>&</sup>lt;sup>4</sup> Joao Augusto de Araujo Castro, "Environment and Development: The Case of the Developing Countries," World Eco-Crisis, University of Wisconsin Press, 1972, pp. 237–238.

<sup>&</sup>lt;sup>5</sup> Report of the United Nations Conference on the Human Environment, Stockholm, June 5-16, 1972.

"environmental factors must be a part of development strategy." In other words, development assistance programs would give broader definition to the traditional goal of improving the quality of life in less-developed countries—especially in places where people live and work . . . involving sanitation systems, drinking water, land planning, and health. (Terms such as "human settlements" and "eco-development" have subsequently become widely used in this connection.) (2) At the same time, agreement was reached to address environmental problems of a global nature, involving exchange of information, research, monitoring, and assessment of the environmental condition of the world. The conference agreed on the creation of a United Nations Environment Programme (UNEP) to carry out these activities.

With the endorsement of the U.N. General Assembly in January 1973, UNEP was established, with headquarters in Nairobi. It has since made important environmental contributions, notably in its program to clean up the Mediterranean and in setting up a worldwide network—the Global Environment Monitoring System, or "GEMS"—for monitoring major aspects of the global environment.

#### Special Problems of the Third World

As seen by the World Bank, the environmental problems of the less-developed countries can be divided into "effects of poverty" and "effects of economic development." The former category includes "overgrazing, erosion, denuded forests, surface water pollution," inadequate water supply, etc. To this list could be added a shortage of arable land, with the result that great emphasis has been placed on crop yields—which, in the aggregate, nevertheless remain very low. Even the high-yield grains of the Green Revolution in most cases have only enabled agricultural production to keep just ahead of population growth.

The "effects of economic development"—such as industrially-derived air and water pollution, or the spread of disease from water development projects—are in principle much easier to contend with, according to the Bank, since environmental planning can be incorporated in advance into development projects. Moreover, "the Bank Group's experience so far suggests that the additional cost attributed to the environmental and health

safeguards . . . has ranged from zero to 3 percent of the total project cost."

#### **Global Problems**

Perhaps 90% of all pollution problems in the world can be dealt with on a national or local basis. But the most threatening problems are global and have to be dealt with internationally. These include: the introduction of toxic elements (such as pesticide residues) into global food chains; "the burning of fossil fuels, affecting the carbon dioxide balance and the sulphur dioxide loading of the atmosphere, and the particulate content of the stratosphere; the pollution of the oceans from land sources, oil spillage, or ship dumping on the high seas; and man-influenced changes in global climatic patterns."

The developing countries are not yet contributors to this class of pollution on a grand scale; it is estimated that over 80% originates with the industrial powers. Environmental experts find some encouragement, in any case, in the trend to build environmental safeguards into new development projects in the Third World, and also in what appears to be a growing general awareness of environmental concerns. (For example, there are now some 70 governments with separate environmental agencies.)

<sup>&</sup>lt;sup>6</sup> Environment and Development, World Bank, June 1975.

<sup>7</sup> Ibid.

<sup>&</sup>lt;sup>8</sup> Amasa S. Bishop and Robert D. Munro, "The U.N. Regional Economic Commissions and Environmental Problems," World Eco-Crisis, University of Wisconsin Press, 1972, p. 193.

## The U.S. Aid Program

"... in spite of vast industrial investments ..."

Over the years since the Marshall Plan, the U.S. foreign aid program has gone through many substantive changes as well as several changes in name. But for convenience, it could be said that there have been three phases:

In the 1950's, "foreign aid was justified primarily as a national security measure, needed to strengthen allies and to build up low-income countries so that they would be less vulnerable to communist invasion or takeover." It was seen as a relatively short-term undertaking.

In the 1960's—the second phase—the trend was more toward strengthening a number of countries against internal subversion, but there was also a trend toward development as a goal in itself. There were seen to be economic, social, and political components of development—all leading toward the target of self-sustaining growth. And indeed there were countries which, with the help of foreign aid, did reach this target—notable cases being Greece, Korea, Taiwan, Brazil, and Mexico.

As time went on, however, it became increasingly apparent that some of the less-developed countries (LDC's), even if they approached self-sustaining growth, were not undergoing the same development process which had taken place in Western Europe, North America, and Japan. Large sectors of their popu-

<sup>&</sup>lt;sup>1</sup> Robert A. Asher, Development Assistance in the Seventies, Brookings Institution, 1970, p. 4.

lations were benefiting little, if at all, from what was happening; and income disparities were getting worse instead of better, in spite of vast industrial investments. (Some U.S. observers find it ironic when Third World spokesmen call for a redistribution of the world's goods, given the notable lack of *internal* redistribution that still characterizes some large and important developing countries.)

Historically, North America and Western Europe were relatively short of labor during their development period; therefore the "capital-intensive" approach—with heavy investments in labor-saving industrial equipment—produced benefits that were diffused more or less throughout their societies. Not so in parts of the under-developed world, where there are large and growing unemployed populations who are simply by-passed under this approach.

In recognition of these different historical and economic patterns, Congress passed a new Foreign Assistance Act in 1973, setting the stage for the present (third) phase of the U.S. foreign aid program, which has assumed a quite different focus. In a special report to Congress in 1975, the Agency for International Development (AID) described the "new directions" in these terms: "Earlier development strategies assumed that economic growth would soon 'trickle down' to the poor masses. In fact, while the large mass of the poor in some countries benefited from development to some degree, many of the very poorest were either no better, or even worse, off than a decade earlier. Recognition of these trends and their serious implications has led to a shift in our development assistance strategy..."<sup>2</sup>

AID thus pragmatically set about retooling itself to focus on "the poor majority," and has established "benchmarks" or "standards of poverty" to use in identifying them: "(a) per capita income below \$150 per year; (b) daily diet of less than 2,160 to 2,670 calories (depending on the country); and (c) several health indicators . . . This vast group . . . totals over 800 million people by our standards, or around three-fourths of the total population of AID-assisted countries; in some coun-

<sup>&</sup>lt;sup>2</sup> Implementation of The "New Directions" in Development Assistance—Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973—July 22, 1975, p. 6.

tries more than 90 percent of the population is in this group, while in other better-off countries the proportion is far lower."

Recognizing the tragic proportions of the problem, the Agency acknowledges its own limitations in coping with it. "Moving the poor majority beyond the poverty benchmarks noted above would be an extremely expensive and lengthy process even in optimal policy settings . . . To suggest how large the job is, with 5 percent annual growth in real GNP and 2 percent annual growth in population, per capita income would double only after 25 years . ." And farther on: ". . . it is normally impractical to think of AID-financed programs affecting directly the entire poor majority in any country, much less moving it beyond the benchmarks in the near term. But wherever possible, AID support must be part of a development approach conducive to broad-based systemic change." <sup>3</sup>

U.S. bilateral development aid now relates mainly to:

- Food and Nutrition. For example: increasing agricultural production through digging wells and constructing dikes, providing new seeds, providing agricultural equipment and technical assistance.
- Population and Health. For example: training local people in treating malaria and in draining swamps; provision of medical supplies; paying salary of a doctor; assisting family guidance associations; training counselors; providing contraceptives.
- Education and Human Resource Development. For example: training primary school teachers; assistance with project for use of radios in education in mountainous country; provision of equipment for education; training local officials in development management.

<sup>&</sup>lt;sup>3</sup> Ibid.

If aid is concentrated on the "poor majority" in a given country, is it just a stop-gap humanitarian measure, or can it indeed contribute at the same time to the development of the country as a whole? The Overseas Development Council—a Washington-based non-governmental organization—had addressed itself to this question in a 1973 publication, and arrived at a modestly optimistic answer: "There is growing evidence," it said, "that policies that are carefully designed to raise the income of the poorest half of the population by increasing their ability to participate in the development process can actually accelerate, not hinder, growth."

In sum: American economic aid has moved progressively from programs with strong political and security overtones to a program that is much more directly humanitarian in nature.

(At the same time, the United States continues to have a program of "Security Support Assistance" in areas considered strategically important for American foreign policy. While separate from the development assistance effort discussed up to this point, it too is administered by AID. The AID "Proposed Program" for fiscal 1977 lists the following countries as major recipients: Israel, Egypt, Jordan, and Syria.)

AID staffing patterns also have changed extensively—mostly in the sense of reductions of force. About one-half of the Agency's overseas personnel had been in Indochina, and after the fall of Saigon AID's foreign service was substantially diminished. There have also been changes of personnel to accommodate the "new directions" of the program. Summing up past and projected reductions, AID Administrator Daniel Parker reported to Congress in 1975 that "cumulative staff reductions from June 1968 to June 1976 will reduce AID's direct-hire staff by more than 56 percent."

Notwithstanding all the changes noted above, critics of the American aid program argue that there are some rather persistent constants.

There is, for instance, the question of bilateral versus multi-lateral aid. Some non-governmental experts (and some within the government) have argued in favor of greatly increasing the ratio of multi-lateral aid, partly as a means of de-politicizing aid and thus improving donor-recipient relationships. Within the government—both the Executive Branch and Congress—there is considerable resistance to this idea, not only for reasons of "control" but because it is felt the U.S. Government has acquired a unique expertise in the matter and should use it. (Total U.S. economic assistance proposed for fiscal 1977 reflects a ratio of 17% multilateral and 83% bilateral. This includes security support assistance.)

Another "constant," as seen by critics of the American aid program, is a tendency in Congress to favor loans over grants—although the program originally consisted very largely of grants—partly because loans are seen as more "businesslike." The result, even at relatively low interest rates, is an increasing accumulation of debt by the less-developed countries.

Also, there is the funding level of the program. The U.N. Second Development Decade (that of the 1970's) calls on the advanced industrial countries to transfer 0.7% annually of their gross national product in aid flows to the less-developed world. While the United States is not formally committed to this objective, neither is it close to attaining it. The present level is about 0.26% of the U.S. GNP—lower than that of most industrial countries. (Only Sweden has attained the U.N. objective.) Given the pioneering role which the United States played in development assistance, the critics feel that its current performance in this respect is particularly disappointing.

An issue that often arises is that of human rights. The Foreign Assistance Act, as amended, says that "No assistance may be provided . . . to the government of any country which engages in a consistent pattern of gross violations of internationally recognized human rights . . . unless such assistance will directly benefit the needy people in such country" (emphasis added). AID, in such cases, may be called upon by Congress "to submit in writing information demonstrating that such assistance" will indeed directly benefit the needy people.

Another issue is that of withholding or reducing aid in individual cases for political reasons. Should this be done or not? An "aid purist" might argue that it should not: that the whole purpose of development assistance is to raise the level of social and economic equity in the world to the point where the less-developed countries feel they have a real "stake" in it; and it is only through this process that the kinds of actions which give us problems can be eliminated. A "political realist" might argue that thus depriving oneself of leverage is an open invitation to inimical actions that can be carried out with impunity.

Finally, there is the matter of most importance for the aid program: the attitudes of the American people. An opinion survey initiated by the Chicago Council on Foreign Relations and carried out in December 1974, i.e. in a period of fairly deep recession, showed the following results among others:

1. "The same concern with the U.S. economy that leads to support for cooperative efforts and sacrifices . . . leads also to a great reluctance to invest heavily in support of economic development abroad. A majority of Americans favored cutting back on economic aid . . . Only emergency relief received overwhelming support . . ."

- 2. ". . . most Americans rated our relations with developing nations as being less important, on the whole, than relations with industrialized nations, both Western and communist."
- 3. American "leaders" were generally much more positive about aid than other respondents, and tended to see aid as benefiting both U.S. national security and the economy.
- 4. "Despite these findings, it would be an error to conclude that most Americans were strongly and unalterably opposed to economic assistance. The goals of raising the world standard of living and of combatting world hunger were generally subscribed to . . ." The survey report concluded that if the American people "could be given convincing evidence that their aid ended up in the right hands . . . [they] might be willing to support the giving of substantial amounts of such aid even in a time of economic hardship." 4

<sup>&</sup>lt;sup>4</sup> John E. Rielly, ed., American Public Opinion and U.S. Foreign Policy 1975, Chicago Council on Foreign Relations, pp. 26, 27.

### Agricultural Development/ Food Aid

"... Even if the shipping and port facilities could handle them ..."

According to U.N. estimates, 400–500 million people in the Third World are already suffering from malnutrition. Some of the less-developed countries are having to import considerable quantities of food now; under present trends of population growth and food production, Third World countries may have to increase their net grain imports from 33 million tons in 1974–75 to about 85 million tons by 1985. Even if the shipping and port facilities could handle them, imports on this scale would place a very heavy burden on developing countries' exchange resources. In addition to slowing population growth, they must therefore increase food production faster than they are now doing.¹

At the World Food Conference, which was convened by the U.N. through a U.S. initiative and held in Rome in 1974, agricultural *development* thus emerged as the priority objective. Developing countries should generally give higher priority to domestic food production. An important initiative at this meeting was the proposal—originally made by the OPEC countries—

<sup>&</sup>lt;sup>1</sup> The U.N. resolution adopted on Sept. 16, 1975 (see p. 7) recognized that "The solution to world food problems lies primarily in increasing rapidly food production in the developing countries."

for the establishment of an International Fund for Agricultural Development (IFAD), to be jointly funded by the industrial nations and the oil producers, at a projected level of about \$1 billion. Policy recommendations to this proposed organization have already been made by various U.N. agencies, stressing the following production and investment priorities: "1) to encourage small landholders and poor farmers in general; 2) to increase yields and improve nutrition; 3) to shift emphasis from export crops to those for local consumption, and 4) to emphasize the production of chemical fertilizers." <sup>2</sup>

Current U.S. foreign aid legislation is similarly oriented toward the small farmer, increased food production, and rural development—which serves, among other things, to slow the migration to cities. The United States has also stressed the need for small farmers to be given adequate social and economic incentives.

The World Food Conference called for increased production in the major agricultural countries as well, and set a target of 10 million tons of grain in food aid for 1975. Unable to reach this level, the donor countries delivered 8 million tons—over half of which came from the United States, which now has a policy of "maximum production" in agriculture. (Probable deliveries in 1976 are projected at 9 million tons.)

U.S. food aid—currently about 60% of all food aid—is administered under Public Law 480, and takes two forms: (1) "Title I" aid—which amounts to nearly \$1 billion, or three-fourths of the whole program—provides for loans, repayable in dollars, on "highly concessional" terms: as much as 40 years to pay, with a 10-year grace period before repayment has to begin. The interest may be as low as 2% during the grace period and 3% thereafter. The agreement covering the loan provides that the recipient country will use the local currency derived from sale of the food for development projects, primarily in agriculture. (2) "Title II" aid (around \$270 million) is in the form of grants—for emergency situations, for child nutrition projects, and for food-for-work programs. It is usually administered overseas by private U.S. voluntary organizations, or by the U.N./FAO World Food Program.

<sup>&</sup>lt;sup>2</sup> Martin M. McLaughlin, "The World Food Situation and the U.S. Role," Agenda for Action 1976, Overseas Development Council.

The Rome conference also recommended the establishment of sizable world food *reserves*, which could be drawn upon in periods of shortage. The United States has proposed a coordinated system of nationally-held reserves which would be subject to agreed international guidelines. Progress toward agreement has been slow, however, mainly because of differing positions among the major cereals-producing countries on the role that market forces should play in the system.

#### **Trade**

"... why cannot countries of the Third World do the same? ..."

If the United States became a developed country without receiving "preferential treatment" in international trade, why cannot countries of the Third World do the same? The answer, presumably, lies mainly in the fact that when the United States began its development process, the technological gap between this continent and Europe was not very great. Today, between the advanced industrial powers and the poorer of the less-developed countries there is a gap of several technological generations. In addition, it was the industrial countries which set the world's trading patterns; they have the advantage that they were first on the scene.

For more than a decade, at any rate, the Third World has asserted compellingly the need for preferential treatment by industrial powers; and this has now become generally accepted. It marks an exception to the underlying principle of the trading system: most-favored-nation treatment, which means in effect that nations should not be treated discriminatorily.

But if preferential treatment for less-developed countries has become widely accepted, there is considerably less agreement on: *how* preferential, and for how long?

Are the "developing" countries of the Southern Hemisphere really developing—toward the point where they can be treated as equals—or is the word just a euphemism? Also, how can one apply the same yardsticks to a relatively rich and powerful country like Brazil, which has made great economic strides, and a poor country like Chad?

It is Brazil, in any case, which has proposed that there should be a whole new set of "rules of the game for North-South trade"—a "general agreement on trade between developed and developing countries." This new agreement "would not interfere with" the principal existing trade forum, the GATT—the General Agreement on Tariffs and Trade, which was drawn up in 1947 with the objective of liberalizing world trade. But in the Brazilian view, the GATT reflects "the interests and peculiarities of the advanced economies . . . the only ones able to benefit from the most-favored nation principle . . ."

If this approach seems in a way "pessimistic"—treating the Third World as if it were "constitutionally" under-developed—the United States' approach, by contrast, could be called "optimistic." It assumes that a number of developing countries will indeed develop. As stated by Secretary of State Kissinger at the U.N. General Assembly: "In the earlier stages of their development, they [the less-developed countries] should receive special treatment through a variety of means—such as preferences, favorable concessions, and exceptions which reflect their economic status. But as they progress to a higher level of development, they must gradually accept the same obligations of reciprocity and stable arrangements that other countries undertake. At some point they must be prepared to compete on more equal terms, even as they derive growing benefits." <sup>2</sup>

Underpinning this approach is the U.S. Trade Act of 1974, which sets up a "Generalized System of Preferences" for less-developed countries. (This is not a peculiarly American institution: 17 other OECD countries preceded the U.S. in adopting such a system.) It authorizes the President to grant duty-free treatment to imports—mainly manufactured and semi-manufactured products—from developing countries, for a period of up to 10 years. (In its coverage it is responsive to a longstanding LDC complaint: that tariff rates in the industrial countries tended to escalate in going from raw materials to semi-processed and manufactured goods.)

<sup>&</sup>lt;sup>1</sup> Speech by Brazilian Ambassador Azeredo da Silveira before the U.N. General Assembly, Sept. 1, 1975. A/PV 2327.

<sup>&</sup>lt;sup>2</sup> Speech by Secretary of State Kissinger before the U.N. General Assembly, Sept. 1, 1975.

Relatively low-priced imports, of course, bring non-inflationary benefits to consumers. But while all governments, even in Socialist countries, recognize that trade expansion brings economic gains, it is apparent that as a practical matter each government must constantly weigh the economic and political aspects of foreign trade and its effects on the national economy. Taking domestic concerns into account, Congress thus wrote into the Act certain limitations on the granting of preferential treatment: (1) It cannot be granted to OPEC countries, or to countries that "withhold supplies of vital commodities from international trade;" and it cannot be given to countries which are determined by the President to have nationalized the properties of American firms "without adequate and timely compensation," or to have failed to take adequate steps to prevent narcotics from entering the U.S. (2) Excluded from preferential treatment are certain specified articles described as "importsensitive" (although these are not necessarily excluded as possible products for trade negotiations).3 (3) In order to reserve preferential benefits for LDC industries that really need them, there is a requirement for halting duty-free treatment for those which reach a certain ceiling in exports of a given item to the U.S.

Since the preferences can be unilaterally withdrawn by the United States, representatives of some less-developed countries have called them a "sword of Damocles," and have sought preferences that would be more "dependable" and either permanent or of long duration. The U.S. position is that generalized preferences should be considered as a temporary exceptional measure, and that the longer-term interest of developing countries lies in concessions arrived at through trade negotiations.

(Through multi-lateral negotiations which reduced the U.S. tariff on a given item, let us say, from 10% to 5%, an LDC would have the certainty that that duty would remain fixed at 5% even if it continued temporarily to enjoy duty-free entry. If the U.S. subsequently put the rate back up to 10%, it would then have to compensate the LDC for the difference between

<sup>&</sup>lt;sup>3</sup> These are: textiles; watches; certain electronic articles; certain steel articles; specified footwear articles; certain glass products; and "any other article which the President determines to be import-sensitive in the context of generalized preferences." (Department of State Special Report No. 18, May 1975.)

5% and 10%, i.e. by offering other trade concessions. Of course, in order to negotiate the U.S. rate down to 5% in the first place, the LDC would have had to offer something in return.)

The LDC's, however, are concerned that negotiated tariff concessions extended to all in accordance with the most-favored-nation principle will erode their preferential margin. Indeed they would argue that as late-comers to industrialization they need every possible advantage, and that current trading rules should be revised to recognize that.

In compiling the present list of preferences, the U.S. International Trade Commission (formerly known as the Tariff Commission) and other government agencies conducted hearings around the country, at which industries, trade unions, consumers, importers, and representatives of less-developed countries could express their views. The process, including review of all the evidence collected, took nearly a year. Especially as this was done in a period of recession, officials who were involved consider that the resultant list was a considerable achievement: it now extends to over 2,700 items, with nearly 100 countries and 43 territories being eligible for duty-free treatment.

On the domestic side of the trade equation, Congress also established procedures in the Trade Act for "import relief" for American industry. If an import item is on the Generalized System of Preferences list, U.S. producers can petition the President's Special Trade Representative to have it taken off the list; and the President then decides whether or not to do so. If an import item is not on the preferential list—or if it is an import from a developed country—the procedure for "import relief" is more complex: If the Trade Commission finds that it is threatening to cause "serious injury" to domestic industry, it can recommend to the President: raising tariffs, imposing quotas, or negotiating "an orderly marketing agreement"—with the government of the exporting country, to limit its exports unless the President determines that this would be contrary to U.S. economic interests. If the President takes no action or takes action different from that recommended by the Commission. Congress can decide in favor of the latter.

Alternatively, the President can order that "adjustment assistance," paid for by the U.S. Treasury, be given to American workers displaced by increased imports, or to firms or communities that are adversely affected. Also, there are instances in which an individual group of workers can directly petition the

Department of Labor—or a business firm the Department of Commerce—even without a finding of injury to an industry by the Trade Commission.

While these adjustment assistance provisions in U.S. law might seem to offer the "ideal" solution from the viewpoint of an LDC exporting to the United States, even here there is a difference in viewpoint. The U.S. Government administers adjustment assistance with a view to making an American industry competitive again in its present line of production, or to shifting it into another line in which it can be competitive. The LDC's would rather see such resources used entirely in the latter sense, i.e. away from lines that compete with their industry. (This LDC view applies also, of course, to other major industrial powers.)

Yet another conflict of views derives from the fact that many LDC economies are state-oriented, and are apt to have subsidized export industries. They say that subsidies are essential to them. U.S. law calls for the automatic application of "countervailing duties" on dutiable imports which have been subsidized. The law of most other industrial countries and current international rules in the GATT call for countervailing duties only when "injury" is shown. LDC's thus complain that the U.S. law should be revised.

There is evidence that the Generalized System of Preferences applied by other industrial countries has begun to have a noticeable effect on the exports of less-developed countries. Since the U.S. act entered into force only in January 1976—and since it takes time for potential exporters to learn of new opportunities and then take advantage of them—it is difficult to make an evaluation so soon of its effects. The very size of it, however, suggests that it too should provide appreciable benefits. Moreover, it seems to confirm that it should be possible for the U.S. to steer a median course: to assist the LDC's materially in trade as well as in other ways, while avoiding damage to the U.S. economy.

Americans may feel that the U.S. has already gone a long way toward accommodating the Third World in trade matters. It is to be expected, however, that the less-developed countries, citing their trade imbalances of recent years, will ask for still more preferential treatment.

Note.—Underlying trading and all other economic relationships with the Third World, of course, is the international monetary system, which has evolved considerably since the International Monetary Fund was first established (by the Bretton Woods Agreement of 1944). A description of the system, of its evolution from relatively fixed exchange rates toward "floating" rates, and of its special provisions for less-developed countries will be found in a report which is available on request from the Department of the Treasury, Washington, D.C. 20220: National Advisory Council on International Monetary and Financial Policies: Special Report to the President and to the Congress, April 1976. See especially pp. 10–19.

### **Commodities**

"... OPEC leaders advocated another expedient ..."

Fluctuation in the price of primary products is a problem that has long been felt acutely in the less-developed countries—some of which gain more than half of their export earnings from a single commodity. Attempts have thus been made over a period of years to stabilize prices in some commodities—tin, coffee, cocoa—through international agreements, though never with complete success.

Beginning in 1974, however, the *non-oil* LDC's found themselves in a particularly precarious situation: the price of fuel they imported multiplied, and then the price of their commodity exports fell dramatically because of the deepening recession in the industrial world.

#### Indexation

Not wishing to lower the cost of oil to developing countries, OPEC leaders advocated another expedient which had long been urged in Third World economic circles: "indexation." That is, commodity-producing countries should index the prices of their commodities against the cost of goods they had to import from the industrial countries.

U.S. officials noted that this idea seemed to overlook an essential point: that *most* commodities are traded among the industrial countries themselves. "Even if a workable system of

indexation could be developed, an assumption open to serious question, it would redistribute income contrary to the manner intended. It would take from the poorest countries, which tend to be net importers of raw materials, in favor of the richer developed countries (Canada, Australia, the U.S., South Africa, and the U.S.S.R.) which are major net exporters of raw materials."<sup>1</sup>

The idea of "indexation" was nevertheless carried over into the 1975 U.N. debate referred to earlier (see p. 5). Third World resolutions of that period also stressed "the right to associate in organizations of primary commodity producers," i.e. in the manner of the oil cartel.

During the U.N. debate, the U.S. Secretary of State observed that "Price stabilization is not generally a promising approach. For many commodities it would be difficult to achieve without severe restrictions on production or exports, extremely expensive buffer stocks, or price levels which could stimulate substitutes and thereby work to the long-range disadvantage of producers . . . We have concluded that, because of the wide diversity among countries, commodities, and markets, a new, much more comprehensive approach is required . . ."

The U.S. proposed:

- Liberalization of lending by the International Monetary Fund (IMF), "to sustain development programs in the face of export fluctuations;" (This has since been carried out.)
- Establishment of "a consumer-producer forum . . . for every key commodity, to discuss how to promote the efficiency, growth, and stability of its market;"
- Liberalization of IMF financing of buffer stocks to support commodity agreements:
- Additional financing from the private sector, from the World Bank, and from a new U.N. revolving fund "to expand worldwide capacity in minerals and other critical raw materials:"
- Reduction of duties on *processed* raw materials from LDC's, to be negotiated in the multilateral trade negotiations.

<sup>&</sup>lt;sup>1</sup> Statement by Julius L. Katz, Deputy Assistant Secretary of State for Economic and Business Affairs, before the Subcommittee on International Trade, Investment, and Monetary Policy of the Committee on Banking, Currency and Housing, July 9, 1975.

The Secretary added, with reference to "the most vital commodity in the world," that the U.S. had sought "to make international collaboration in food a model for realistic and cooperative approaches to other international economic issues." He emphasized that "The U.S. policy is now one of maximum production."

#### The "Integrated Programme"

Another concept which some Third World countries have sought to promote is that of an "Integrated Programme" for commodities. (This has been discussed especially at the periodic meetings of the U.N. Conference on Trade and Development (UNCTAD).) A central idea of the Integrated Programme is the establishment of a common fund to finance buffer stocks for a large number of commodities. Although the United States recently has participated in negotiations for individual commodity agreements such as cocoa, sugar, tin, and coffee (and signed resultant agreements in these latter two commodities). the general U.S. position is to favor discussion of possible commodity agreements on a case-by-case basis. The United States has thus expressed considerable reservations about the Integrated Programme plan as being cumbersome and very expensive, as well as involving price-fixing and other forms of government intervention in the market.

### "...the real limiting factor..."

As far as the general worldwide availability of commodities is concerned, the U.S. position, as noted by a Department of State official, is that "the real limiting factor is capital investment [for exploring and developing new productive capacity] rather than the depletion of physical resources"—although "the search for mineral resources must increasingly rely upon lower-grade ores or resources in more remote areas of the world." "Given the increasingly unfavorable and unstable political environment facing private investment throughout the world, the question arises whether there is likely to take place the levels

of investment necessary to meet growing demands for new productive capacity in the decades ahead."<sup>2</sup>

In this connection, another Department official—referring to "the growing desire of governments in materials-producing countries . . . to assume the ownership, control, management and benefits of materials enterprises"—pointed out that already, "in the period 1970–1973, approximately 75 percent of the noncommunist world's minerals exploration expenditures appear to have been spent in four developed countries: the United States, Canada, Australia, and South Africa. The reason for this," he said, "is clear. The international mining companies are becoming increasingly reluctant to bear the exploration risk because of their smaller chance of gaining full rights to exploit their finds." (See also Multi-national Corporations and the Third World, p. 55.)

#### Nairobi

This problem, among others, was addressed by Secretary of State Kissinger at the UNCTAD meeting which opened at Nairobi in May 1976. Pointing out that ". . . resource development is often discouraged by the very countries which are most in need of it," he observed that "in the next decade alone the total requirements for global investment in resources will be massive."

As a solution, the Secretary made a detailed proposal for the establishment of an *International Resources Bank* (IRB), which would "mobilize capital for sound resources development projects" and "participate with foreign investors and the host government in project agreements specifying the conditions of the investment on a basis acceptable to all parties." By a narrow margin (33–31, with 44 abstentions), the conference subsequently voted against undertaking a study of the IRB proposal; but State Department officials say the U.S. intends to pursue it in other forums, in the belief that it offers a viable

<sup>&</sup>lt;sup>2</sup> Ibid.

<sup>&</sup>lt;sup>3</sup> "New Directions in US Materials Policy," speech by Thomas O. Enders, (then) Assistant Secretary of State for Economic and Business Affairs, Washington, D.C., Oct. 1, 1975.

solution to the problem of non-commercial risks in international investments in the developing countries.

#### Seabed

Finally, a new dimension in the world commodities field can be envisioned in the exploration of seabed resources—believed to comprise "40% of the world's petroleum and virtually inexhaustible supplies of minerals . . ." In April 1976—during the third Law of the Sea Conference, at New York—Secretary Kissinger made a detailed proposal which would, among other things, provide for both private and international exploitation of these resources, with a system of revenue-sharing that would be of particular benefit to the poorest countries.

<sup>&</sup>lt;sup>4</sup> "The Law of the Sea: A Test of International Cooperation," address by Secretary of State Kissinger before the Foreign Policy Association, the U.S. Council of the International Chamber of Commerce, and the U.N. Association of the U.S.A., New York, Apr. 8, 1976.

## Energy

"... in which the interests of these groups converged ..."

In the wake of the oil crisis—and the subsequent five-fold increase in oil prices by the OPEC countries—the industrial countries sought ways to reduce their vulnerability to any possible future embargoes or arbitrary price increases. An important coordinating step in this direction was the Washington Energy Conference of February 1974, out of which grew a new organization: the *International Energy Agency* (IEA), established nine months later within the framework of the OECD.¹ The agreement setting up this new agency provides for conservation measures, for oil-sharing when "supply difficulties" afflict one or more of its members, and for an accelerated cooperative program to develop alternative energy sources, including coordinated energy research-and-development efforts.

While the IEA was thus conceived in the first instance as an instrument to defend the interests of the industrial coun-

¹ The Organization for Economic Cooperation and Development (OECD), established in 1960, seeks to promote the economic growth of members "and thus to contribute to the development of the world economy." Members of the OECD are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. OECD members which do not participate in the IEA are: Australia, Finland, France, Greece, Iceland, and Portugal.

tries, the latter had emphasized in a number of public statements that they hoped to see the confrontational aspect of the oil question reduced. The communique of the Washington conference, for example, recognized "a need to develop a cooperative multilateral relationship with producing countries, and other consuming countries that takes into account the long-term interests of all." Similarly, when the IEA began its operations in November 1974, a statement from its board of governors reiterated this point: "... the fact of not setting up an entirely new international organization confirms the desire of the signatory countries not to build a system of confrontation vis-à-vis any quarter, but on the contrary to contribute to a new system of international cooperation."<sup>2</sup>

As a further step toward creating a "bridge" with Third World countries in the energy field, the United States in 1975 launched a proposal in the U.N. General Assembly calling for the creation of an International Energy Institute, "bringing together developed and developing, consumer and producer, on the particular problem of energy development." The Institute would analyze the potential of individual LDC's in various types of energy production, help with the training of some of their technicians, and develop energy technologies suited to their needs. If successful, this could expand world energy sources, thus benefiting consumers—including the industrial countries as well as the producers of the new energy. In 1976 the U.S. referred this plan to fellow-members of the IEA for further elaboration, with a view to presenting it subsequently at the Conference on International Economic Cooperation (CIEC), which in the meantime had begun its work at Paris.

This Paris-based conference—comprising 26 developed and less-developed countries (both oil-producing and non-oil-producing), plus the European Economic Community—was launched in December 1975 only after considerable difficulty. The industrial powers had sought at first to organize an international consumer/producer conference on *energy*; but Third World representatives insisted on a conference that would place equal

<sup>&</sup>lt;sup>2</sup> Statement of Nov. 18, 1974. Department of State Selected Documents No. 3, Dec. 1975.

<sup>&</sup>lt;sup>3</sup> Statement by Secretary of State Kissinger before the U.N. General Assembly, Sept. 1, 1975.

emphasis on other raw materials and issues relating to the concept of a "New International Economic Order." Fearing that such a gathering "would be unwieldy and unproductive and could degenerate into confrontation," the United States proposed a compromise, which was accepted: the conference would be compartmented into four separate commissions, dealing respectively with energy, raw materials, development, and finance. These commissions began their work in February 1976.

Underlying the Paris conference as it began its work were the varying interests at stake. Those of the oil-producing countries (OPEC) were perhaps the most clearly outlined: they sought to maximize oil revenues—preferably by "indexation," i.e. tying oil prices to the cost of manufactured goods they imported from industrial countries; and to increase their control over the production, refining, distribution, and marketing of oil. By these means they would develop and diversify their own economies.

While the energy interests of the *non*-oil LDC's were less neatly defined, these countries clearly continued to pin hopes on OPEC as the prime mover which would coax the industrial powers along the road toward a "New International Economic Order." Moreover, some of them had been receiving substantial aid from OPEC countries. Meanwhile, OPEC spokesmen continued to downplay the role of oil prices in the economic plight of their less fortunate partners—casting blame instead on increased costs of food and manufactures imported from the industrial countries. (According to some economists, the oil-producing countries had genuinely failed to anticipate that the oil price increase would take the toll it did.) <sup>5</sup>

On the third side of the triangle were the industrial powers. As the energy commission began its deliberations, the United

<sup>&</sup>lt;sup>4</sup> Statement by Charles W. Robinson, Under Secretary of State for Economic Affairs, before the House International Relations Committee, Feb. 19, 1976.

<sup>&</sup>lt;sup>5</sup> Maurice J. Williams, "The Aid Programs of the OPEC Countries," Foreign Affairs, Jan. 1976. "Since non-oil developing countries are relatively small users of oil, accounting for only about ten percent of annual world consumption, OPEC countries underestimated the importance of oil to them and tended to regard forecasts of the dire effect of oil price increases as part of the publicity campaign by industrial consumers against higher prices."

States set out to demonstrate that "the interest of all nations, producer and consumer," would best be served "by a stable and secure supply of energy at reasonable prices," and by "the efficient and orderly development of the world's energy resources."

Notwithstanding these different positions, there were some ways in which the interests of these groups converged. Conservation measures and the development of new oil and other energy sources—anywhere—must be of general benefit. Similarly, both producers and consumers have an interest in the industrialization of the OPEC countries, which would then offer expanded markets for developed and less-developed alike. Finally, Western and OPEC financial resources, combined with Western technology, could be used in both public and private efforts in the developing countries.

<sup>&</sup>lt;sup>6</sup> Statement by Charles W. Robinson, Under Secretary of State for Economic Affairs, before the House International Relations Committee, Feb. 19, 1976.

# OPEC Investments in the U.S.

Although concern was expressed at one time that the newly rich oil-producing countries would buy up massive blocs of American business, this in fact has not happened. Reflecting their desire for safe, relatively liquid investments and for anonymity, they have placed most of their excess financial reserves in bank deposits, short-term Eurodollar loans, etc., although it seems reasonable to expect them to move increasingly in the future toward government bonds and other longer-term portfolio investments. There have been very few attempts actually to take over control of enterprises.

Early in 1975, at the initiative of the Secretary of State, an inter-agency policy review was conducted, the basic conclusion of which was "to reaffirm the traditional commitment of the U.S. Government to 'national treatment' for foreign investors. In addition, however, we concluded that we should take administrative action in a number of areas to guard against the potential problems of foreign investments in the United States: (1) establish new centralized machinery in the Executive Branch to gather available data on and make policy recommendations concerning foreign investment in the United States, and (2) seek assurances from foreign governments that are capable of making very substantial investments that they will consult with us prior to making major investments in the

United States." In May 1975 the President established an interagency Committee on Foreign Investment in the United States, chaired by the Secretary of the Treasury, to carry out these functions.

Substantial safeguards do exist to protect vital U.S. national interests in connection with foreign investment. Federal law sets restrictions on foreign participation in U.S. enterprises associated with atomic energy, hydroelectric power, communications, air transport, coastal and inland water shipping, fishing and development of federally-owned lands and mineral resources. Under Department of Defense regulations, foreigners are generally excluded from participation in, or access to, work by firms on classified defense contracts.

At the same time, the overall policy is that foreign investment in the United States "benefits our economy and should generally be welcomed." The policy also recognizes that international investment cannot be blocked "in one direction without impeding its flow in all directions."

# Multi-National Corporations and the Third World

"... It follows inescapably ..."

It is the U.S. Government's policy to encourage private investment in the developing countries; and to back up that policy, Congress in 1969 created the Overseas Private Investment Corporation (OPIC), which offers insurance to American firms against the risks of inconvertibility of currency, expropriation, and war. U.S. tax laws also have special provisions for investments in less-developed countries (although it is the opinion of the Executive Branch that these laws as currently drafted "probably provide little incentive" to do so).

Indeed the flow of *private* capital to LDC's was a major topic in the Secretary of State's presentation at the 1975 U.N. debate. Noting that the "industrial nations and the oil exporters cannot, even together, supply all the new resources needed to accelerate development," he said: "It follows inescapably that the remaining needs for capital and technology can only be met, directly or indirectly, from the vast pool of private sources." He added farther on: "If the world community is committed to economic development, it cannot afford to treat trans-national enterprises as objects of economic warfare."

<sup>&</sup>lt;sup>1</sup> Development Issues—First Annual Report of the President on U.S. Actions Affecting the Development of Low-Income Countries, May 1975, p. 90.

The trans-national (or multi-national) corporation is a relatively new phenomenon, made possible by rapid communications, improved transport, new management techniques, and computers. It can be highly efficient, "producing more goods with the same resources than other methods of organized production." With their vast overseas facilities, U.S.-based multi-nationals have become "in many ways the most important form of American involvement in the world economy." 3

Most multi-national corporations' activities take place within the industrial world itself—only a minor part in the Third World. And yet, it is that part which one hears most about.

There are many who consider the multi-national to be a uniquely powerful engine of development: "... only the international companies have the capital, trained personnel, and entrepreneurial capacity to develop other countries and integrate them into the world economic structure. There is no substitute."

Nevertheless, over the years that multi-nationals have been operating, less-developed countries have raised a number of complaints about them: "... too big... able to evade national controls... do not contribute enough to achieving national objectives... interfere in domestic affairs..." (In Latin America—where about one-sixth of U.S. overseas investments have been made—there is a school of thought which holds that foreign multi-nationals, in meeting their global needs, have distorted the shape and technology of Latin industry, thereby making the latter a kind of "dependency." Some opinion polls

<sup>&</sup>lt;sup>2</sup> The Multinational Corporation—Report of the Forty-Seventh American Assembly, Dec. 12–15, 1974.

<sup>&</sup>lt;sup>3</sup> M.I.T. study, quoted in Department of State Special Report No. 17, July 1975, p. 6.

<sup>&</sup>lt;sup>4</sup> George C. McGhee, "America Against Itself," Foreign Service Journal, Mar. 1976.

<sup>&</sup>lt;sup>5</sup> Development Issues—First Annual Report of the President on U.S. Actions Affecting the Development of Low-Income Countries, May 1975, p. 90.

<sup>&</sup>lt;sup>6</sup> See, for example, Andre Gunder Frank, Lumpenbourgeoisie: Lumpendevelopment, Monthly Review Press, New York and London, 1972.

in Latin America, on the contrary, have shown largely favorable attitudes toward foreign investment among educated groups, although considerably less so among those with less education.)

The ambivalence in Third World attitudes toward foreign investment was reflected during the U.N. debate referred to earlier. The LDC "Programme of Action" called for the "Promotion of foreign investment, both public and private" (emphasis added); and yet both this document and the "Declaration" and "Charter" contained provisions relating to "sovereignty" and nationalization of foreign property which, in the view of the United States and other industrial powers, were contrary to international law and quite apt to discourage foreign investment.

Over the past two decades, multi-nationals have considerably expanded their operations in both developed and less-developed countries. Again, however, it is mainly in the latter case that problems have arisen. As the corporations have come to play an important and sometimes highly visible role in the economies of these countries, there is a tendency to levy increasing demands on them to meet development needs, and to attribute blame to them when these needs are not met.

In view of these continuing problems, the U.N. Economic and Social Council (ECOSOC) in 1972 called for a study on "The Impact of Multinational Corporations on the Development Process and on International Relations," which was completed two years later. The U.S. Government's commentary on this report sheds light on the opposing points of view. It states in part: "The fundamental assumption underlying the Report appears to be that there is basically an adversary relationship between MNCs [multi-national corporations] and host countries, particularly in the developing world, in which the economic power of the former is pitted against the allegedly weaker sovereign power of the latter. From this assumption, which the U.S. Government does not accept, the Report then concludes that governments and the international community should reiress this imbalance by taking steps to increase the bargaining power of developing host countries vis a vis the MNCs. The consequence is that the Report has an unfortunate negative one with an emphasis on restricting MNCs rather than on

<sup>&</sup>lt;sup>7</sup> Research Memorandum N-1-75, Sept. 8, 1975, U.S. Information gency, pp. 8-10.

constructive measures for ensuring that capital and technology are as free as possible to be employed worldwide in their most productive uses. There is also an evident bias in favor of government as opposed to private decision-making."

Farther on, the U.S. commentary expressed concern that some of the report's recommendations to governments, "if generally applied, would so restrict the operations of MNCs or create such uncertainties for the future that the result would be less, rather than undiminished new foreign investment." Agreeing with the report that "private foreign investment is not a substitute for international public assistance," the U.S. commentary stated: "Yet there is a close, complementary relationship between foreign investment and public assistance which we feel should have been given greater emphasis . . ."

During the 1975 U.N. debate, Secretary of State Kissinger referred to multi-national enterprises as "powerful instruments of modernization," and called for the elaboration of voluntary "standards of conduct for both enterprises and governments." The LDC's themselves have for some time been pressing for a "code of conduct," and the question has been under study in several international forums, including the U.N. Commission on Transnational Corporations, which was established in 1975. At a meeting held in March 1976, this Commission recommended that a working group be set up, to begin drawing up an outline for such a code.

In the U.S. view, any such guidelines on multi-national corporations must:

- Call on the multi-nationals to take account of national priorities and to obey local law;
- Be indicative rather than mandatory, and thus not seek to supersede existing national and international law;
- Articulate general principles of good business practice applicable, where relevant, to all enterprises, whether multi-national or national, whether owned privately, by the State, or by a mixture of the two;
- Confirm the obligation of governments to treat multinationals equitably and in accordance with international law and
- Indicate the necessity for both enterprises and governments to respect contractual obligations freely undertaken b them.

## Third World Debts

"... their interests are by no means identical ..."

Non-oil countries of the Third World, in addition to being hard hit by the oil price increase, have suffered from higher prices of other essential imports and also from a slack in demand for their own products during the global recession. As a result, massive current account deficits have occurred since 1974; and the external debt of these countries—much of it on commercial terms—has risen sharply. Servicing this external debt claims an increasing proportion of their limited export earnings. What can be done about this?

One idea advanced is that of a general debt-servicing moratorium—of perhaps one year. But this raises a host of problems. The debt situations of individual countries vary widely, and their interests are by no means identical in the matter. For the more advanced LDC's, which can (and therefore must) depend on private capital markets for the bulk of their external loans, creditworthiness is extremely important; and a moratorium clearly would affect this adversely. And even the LDC's as a group now depend on private capital as much as they do on "official development assistance" (from governments or international organizations).

Most of the LDC's—even the poorer ones—would benefit only narginally. Few of the latter have a large accumulation of debt, nd much of what they owe stems from "official development ssistance" or "ODA" (loans which are often granted on

"highly concessional"—i.e. easy—terms).¹ The major beneficiaries of a moratorium on ODA would be India and Pakistan, which together—among the countries most seriously affected by recent changes in the world economic situation—account for almost 60% of current ODA debt-service payments.

Another idea which has been put forth would provide "different solutions for debt to governments of the industrial countries, debt to the World Bank and other international lending agencies, and debt to private banks..."

Given the wide diversity of debt situations among the LDC's, however, the major creditor-countries—the United States, Canada, France, the Federal Republic of Germany, Japan, and the United Kingdom—have held that debt-servicing problems should not be addressed in a generalized way but rather in the traditional manner on a "case-by-case" basis.

The U.S. view is that generalized debt relief would not lead to the kinds of action needed for a long-term solution to balance of payments difficulties. It would not redress the balance of payments situation between oil-producing and non-oil-producing LDC's. Moreover, it would set an unfortunate precedent in the traditional creditor-debtor relationship, and actually have an adverse effect on the long-term flow of resources to the LDC's. A more farsighted solution, in the American view, is to increase the financial assistance available to developing countries that require it—especially countries that have not been able to borrow readily from private capital markets. This would give countries additional flexibility in making necessary adjustments, and would enable them to stretch the process over a period of time. (The decisions taken at the January 1976 meeting of

¹ Countries that have difficulty obtaining loans in commercial markets can apply to the World Bank (IBRD), but the Bank then obtains the money in commercial markets and therefore has to charge the going rate of interest. Alternatively, poorer countries can apply to the International Development Authority (IDA) which is the "soft loan window" of the Bank. In this case they may receive loans that are interest-free, with only a service charge and with 50 years to pay. The United States and other majo creditor-countries similarly provide development assistance loans or various terms and at varying rates of interest—as well as som outright grants.

<sup>&</sup>lt;sup>2</sup> Edwin L. Dale, Jr., The New York Times, Feb. 17, 1976.

the International Monetary Fund made available substantial additional financing facilities to developing countries.)

All the same, the idea of generalized debt relief will presumably continue to be a popular issue among some of the LDC's, since it would be a way of supplementing what they consider to be inadequate flows of development assistance.

## **Conclusion**

"... we will all be looking to human ingenuity ..."

There is much disagreement among the experts about such prospects as the future availability of energy and resources and the number of people the earth can support. Estimates have ranged from the pessimistic outlook of the first Club of Rome report in 1972 (p. 21) to the much more optimistic view of Herman Kahn and the Hudson Institute, published in May 1976.<sup>1</sup>

The trend of the estimates, if anything, seems to be toward a less somber outlook. So much the better, if they are correct. But the problem for the present generation is to act in ways that are responsible, in a physical world where many of the answers still elude us.

While there are many scientific and technical uncertainties, it seems clear that part of the *political* legacy we leave should be a marked and visible movement toward acceptable standards of housing, education, medical services, and employment in **poor** countries. One American observer of Third World (and nuclear) affairs has said: "We must be willing to share our wealth and our expertise so that the poor may recover hope in their own future and are less likely to bring violence upon

<sup>&</sup>lt;sup>1</sup> William Morrow, The Next 200 Years—A Scenario for America and the World, New York. This work projects a continuing abundance of energy and resources, through scientific and technological innovations, and envisages a world able to support 15 billion people.

us." There seems no doubt, in an era of proliferating mass-destruction technologies, that our security will be enhanced if the world community surrounding us is relatively prosperous, hopeful, and therefore stable. But even without introducing this element of threat into the equation, it seems logical that our economic interests would be better served in the climate of a stable North-South relationship. Moreover, the American people have indicated abundantly that they would like to *help* the under-developed countries—sometimes for practical reasons, but also out of purely humanitarian considerations.

This does not mean, of course, that the United States and other industrial countries have to be charitable institutions. The Third World itself has acknowledged that primary responsibility for development rests with each individual country. But since development—like the more direct approach of family-planning—is a way to help curb runaway population growth, it seems inescapable that we must continue to encourage their development (in our own interest as well as theirs)—even knowing that in doing so we are indirectly increasing future competition for the earth's energy and resources.

Given the already existing state of mutual dependency between the industrial powers and the less-developed countries, a former State Department official has prescribed the following trade-off: "We need to strike a great [intercontinental] bargain in which access to energy and other raw materials, which industrialized countries need, is traded for other kinds of access which the developing countries need—access to markets at stable and remunerative prices, access to technology, management skills, and investment capital, and access to a fairer share of decision-making in international institutions." These, in any case, are the substance of current issues and negotiations between developed and developing countries.

A policy statement issued by the Department of State in May 1976 emphasized mutual responsibilities: "mutual respect" . . . the need for "all countries to accept their share of responsibility" . . . the "special responsibility" of "developing countries

<sup>&</sup>lt;sup>2</sup> Canon Michael Hamilton, "Nuclear Policy in a New Era," Cathedral Age, Spring 1976.

<sup>&</sup>lt;sup>3</sup> Richard N. Gardner, "To Make The World Safe For Interdependence," The Inter-Dependent, July-Aug. 1975.

which have recently acquired new wealth"... the concern which all must show for "the needs of the poorest countries..." The statement also called for concentration "on specific problems and practical solutions" rather than "broadly generalized formulations;" and it made the point that "combined with effective international institutions and government policies... private enterprise can make an essential contribution to economic development." <sup>4</sup>

By the same token, a major challenge for the remainder of this century may be that of helping poor countries in ways that do not rely on appropriated assistance funds—placing more reliance on relatively cost-free ways of promoting development:

- Involving the unemployed and the under-employed, including women, in the development process;
  - Evolving simple, inexpensive, labor-intensive technologies;
- Improving the world trading system, so that less-developed countries can rely increasingly on trade-stimulated growth;
- Finding ways in which to increase the involvement of foreign private capital and skills in the development process.

For the very long term, we will all be looking to human ingenuity and new technologies for the release of energy and resources and for the control of pollution. Within this prospect, it seems apparent that developed and developing countries must share yet another responsibility: that of planning for the future, so that the whole of mankind can make timely adjustments to the conditions and potentialities of the physical world.

<sup>&</sup>lt;sup>4</sup> "The Secretary's UNCTAD Speech," an analysis—distributed by the Department of State press office—of Secretary of State Kissinger's speech before the U.N. Conference on Trade and Development, Nairobi, May 6, 1976.